

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AF-10 ARA-16 EA-11 NEA-11 RSC-01 AID-20

CEA-02 CIAE-00 COME-00 EB-11 FRB-02 INR-10 IO-14

NSAE-00 OPIC-12 SPC-03 TRSE-00 CIEP-02 LAB-06 SIL-01

OMB-01 SS-20 NSC-10 L-03 H-03 PA-04 PRS-01 USIA-15

FEA-02 INT-08 SCI-06 STR-08 DRC-01 /240 W

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R 241800Z JAN 74

FM AMCONSUL STRASBOURG

TO SECSTATE WASHDC 0669

INFO AMEMBASSY PARIS

US MISSION OECD PARIS

AMEMBASSY ANKARA

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AMEMBASSY TOKYO

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UNCLAS SECTION 1 OF 2 STRASBOURG 0018/1

E.O.11652: N/A

TAGS: PFOR, ENGR, EFIN, COE

SUBJECT: OECD SYG VAN LENNEP ON ENERGY CRISIS

1. SUMMARY - IN A MAJOR ADDRESS BEFORE CONSULTATIVE ASSEMBLY OF COUNCIL OF EUROPE JANUARY 23 OECD SYG VAN LENNEP FOCUSED ON OIL CRISIS AND PARTICULARLY CONSEQUENCES OF HIGH OIL PRICES. HE SAW IMMEDIATE PROBLEMS FACING OECD COUNTRIES AS HIGHER INFLATION RATES, REDUCED LEVELS OF ECONOMIC ACTIVITY AND EMPLOYMENT, AND CONTINUOUS BALANCE OF PAYMENTS DEFICITS ON CURRENT ACCOUNT. URGENT TASK WAS TO INSURE HIGHER CAPITAL OUTFLOWS FROM OIL PRODUCING AREAS MADE AVAILABLE IN PLACES AND FORMS THAT WILL FACILITATE CONTINUED EXPANSION OF WORLD TRADE AND EMPLOYMENT. IMMEDIATE PROBLEM FOR LDC S THAT ARE NOT OIL PRODUCERS WAS INABILITY TO FINANCE NEEDED OIL IMPORTS. THIS REQUIRED MAINTENANCE OF EXISTING ASSISTANCE LEVELS, CHEAP LOANS, AND MOBILIZATION OF INCREASED WORLD SAVINGS TO ACCELERATE ECONOMIC DEVELOPMENT. COOPERATION BETWEEN OIL PRODUCERS AND OIL CONSUMERS WAS MOST NEEDED IN SETTING OIL PRICE WHICH CORRECTLY REFLECTS THE LONGER RUN SUPPLY AND DEMAND FOR OIL AND ALTERNATIVE SOURCES OF ENERGY. US
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CONGRESSMAN CHARLES WHALEN IN STRASBOURG FOR DEBATE, MADE STATEMENT STRESSING THAT INTERNATIONAL COOPERATION WAS IMPERATIVE IF PROBLEMS POSED BY CRISIS WERE TO BE SOLVED, AND SUGGEST OECD AS APPROPRIATE BODY. ENSUING DEBATE GENERALLY REFLECTED WIDESPREAD SUPPORT FOR COOPERATIVE INTERNATIONAL APPROACH, SPECIFICALLY COMMENDED INITIATIVE OF PRESIDENT NIXON IN CONVENING FEB. 11 MEETING, AND STRESSED THE NEED FOR GOVERNMENTS TO SHOW THE POLITICAL WILL TO WORK

TOGETHER. END SUMMARY.

2. IN ADDRESS TO CONSULTATIVE ASSEMBLY JAN. 23, OECD SYG VAN LENNEP NOTED THAT THE CURRENT OIL CRISIS DID NOT TAKE GOVERNMENTS BY TOTAL SURPRISE HE POINTED OUT THAT OECD IN MAY 1972 BEGAN TO STUDY THE ENERGY PROBLEM, BUT ACKNOWLEDGED THAT THE SITUATION CHANGED MORE QUICKLY THAN EXPECTED.

3. VAN LENNEP DEPICTED THE IMMEDIATE PROBLEM FOR OECD COUNTRIES AS ONE OF EXCESSIVELY HIGH OIL PRICES RATHER THAN OF ACUTE OIL SHORTAGES. HE SAID THAT BEFORE CHRISTMAS A PROSPECTIVE SHORTAGE OF OIL WAS SEEN AS A SERIOUS THREAT TO ECONOMIC EXPANSION IN BOTH OECD COUNTRIES AND LDC S , BUT THAT NOW THIS PARTICULAR PROBLEM SEEMS TO BE RECEDING. FOR THE OECD AREA AS A WHOLE, THE SHORTFALL OF OIL SUPPLIES NOW SEEMS LIKELY ONLY TO REQUIRE INTELLIGENT ACTION TO ELIMINATE WASTEFUL USE.

4. THE OIL PRICE INCREASE IS ANOTHER MATTER. WHILE VAN LENNEP CONCEDED THAT THERE HAD BEEN A RELATIVE DETERIORATION OF CRUDE OIL PRICES DURING THE SIXTIES, HE EMPHASIZED THAT SO LARGE A PRICE INCREASE IN SO SHORT A TIME FOR SO ESSENTIAL A COMMODITY POSES VERY DIFFICULT ECONOMIC PROBLEMS IN MANY FIELDS FOR OECD MEMBERS. SPECIFICALLY:

A. INFLATION WILL RISE BEYOND THE 1973 TEN PERCENT RATE. GOVERNMENTS HAD HOPED TO SEE THEIR ANTI-INFLATION POLICIES BEAR FRUIT IN 1974, BUT THE NEW TWIST TO THE PRICE-WAGE SPIRAL INCREASES THE LIKELIHOOD OF A RATE IN THE TEENS. THE LONGER A TWO-DIGIT RATE CONTINUES, HE ADDED, THE GREATER THE DANGER THAT INFLATIONARY EXPECTATIONS WILL BECOME INGRAINED IN OUR ECONOMIC BEHAVIOR.

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B. HIGHER OIL PRICES POSE DANGER OF UNWANTED CONTRACTIONARY EFFECT ON LEVEL OF ECONOMIC ACTIVITY AND EMPLOYMENT BECAUSE OIL PRODUCING COUNTRIES WILL NOT BE ABLE TO STEP UP THEIR EXPENDITURE IN LINE WITH THEIR HIGHER INCOMES. VAN LENNEP ADDED THAT DISCUSSIONS THIS MONTH SUGGEST GOVERNMENTS ARE ALERT TO THE POSSIBLE DEPRESSIVE EFFECTS OF THE ENERGY PRICE RISE AND RECOGNIZE THE IMPORTANCE OF TAKING TIMELY ACTION TO SUPPORT DEMAND.

C. OECD COUNTRIES PAYMENTS POSITIONS WILL SHIFT FROM NORMAL CURRENT ACCOUNT SURPLUSES TO LARGE DEFICITS.

5. THIS LAST PROBLEM POSED BY THE PROSPECT OF CONTINUING CURRENT ACCOUNT DEFICITS REQUIRES, IN VAN LENNEP S VIEW, URGENT ACTION BY THE OECD. IF INDIVIDUAL COUNTRIES COMPETE

TO OFFSET THESE DEFICITS, HE WARNED, THERE COULD BE A RETURN TO THE SPIRAL OF COMPETITIVE AND MUTUALLY FRUSTRATING DEVALUATION, DEFLATION, AND TRADE RESTRICTION WHICH CHARACTERIZED THE INTERWAR PERIOD. FURTHERMORE, COUNTRIES MAY COMPETE TO ATTRACT CAPITAL FROM OIL PRODUCING COUNTRIES BY ESCALATING INTEREST RATES. TO AVOID THESE DANGERS, OECD MEMBERS SHOULD AGREE ON CURRENT ACCOUNT OBJECTIVES AND CONSIDER WHAT STEPS ARE NEEDED TO INSURE THAT THE LARGE AMOUNTS OF CAPITAL HENCEFORTH FLOWING OUT OF THE OIL PRODUCING COUNTRIES WILL BE AVAILABLE IN PLACES AND FORMS THAT MOST FACILITATE THE CONTINUED EXPANSION OF WORLD TRADE AND EMPLOYMENT. HE NOTED THAT OIL PRODUCERS AND OIL IMPORTERS HAVE A COMMON INTEREST IN A STABLE INTERNATIONAL MONETARY SYSTEM.

6. VAN LENNEP ALSO SAW IMMEDIATE PROBLEMS FOR NON OIL PRODUCING LDC S. AN EXPECTED DOLS. 10 BILLION INCREASE IN THEIR OIL IMPORT BILLS WILL JUST ABOUT WIPE OUT OFFICIAL DEVELOPMENT ASSISTANCE WHICH OECD COUNTRIES MAKE AVAILABLE EACH YEAR TO THEM. EXISTING DEBT BURDENS WILL IMPAIR THEIR ABILITY TO FINANCE CONSUMPTION BY BORROWING. IN SHORT, BY THEIR OWN EFFORTS THEY STAND LITTLE CHANCE OF ESCAPING A SERIOUS DETERIORATION OF THEIR ECONOMIC SITUATION. THIS, VAN LENNEP SAID, CALLED FOR THREE MAJOR POLICY ACTIONS:

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A. EXISTING OFFICIAL DEVELOPMENT ASSISTANCE PROGRAMS MUST NOT BE SLOWED DOWN OR REDUCED.

B. SPECIAL HELP, LARGELY CHEAP LOANS, SHOULD BE MADE AVAILABLE TO LDC S WORST HIT, AS SERIOUS DISRUPTIONS IN THEIR ECONOMIES MIGHT CONTRIBUTE TO A CUMULATIVE CONTRACTION OF WORLD TRADE.

C. THE SUBSTANTIAL RISE IN WORLD SAVINGS, RESULTING FROM THE INABILITY OF OIL PRODUCERS TO FULLY SPEND THEIR HIGHER INCOME, SHOULD BE MOBILIZED TO ACCELERATE ECONOMIC PROGRESS IN THE DEVELOPING WORLD.

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R 241845Z JAN 74

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INFO AMEMBASSY PARIS

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UNCLAS FINAL SECTION OF 2 STRASBOURG 0018/2

7. VAN LENNEP SAID THAT BOTH OIL PRODUCERS AND OIL CONSUMERS HAVE A COMMON INTEREST IN AN OIL PRICE WHICH CORRECTLY REFLECTS THE LONGER-RUN SUPPLY AND DEMAND FOR OIL AND ALTERNATIVE SOURCES OF ENERGY.

A. OIL PRODUCERS ARE HAVING TO EXPLOIT A DEPLETABLE ASSET. THE RATE OF DEPLETION VARIES FROM COUNTRY TO COUNTRY, AND THEIR DESIRE TO MEET NATIONAL DEVELOPMENT GOALS IS A FACTOR IN THE PRICE THEY ASK FOR OIL. TOO LOW A PRICE MAKES THEIR INCOME INSUFFICIENT FOR FUTURE NEEDS WHILE TOO HIGH A PRICE WILL ACCELERATE THEIR CUSTOMER S SEARCH FOR ALTERNATE ENERGY SOURCES AND NOT ALLOW PRODUCERS SUFFICIENT TIME TO DIVERSIFY. VAN LENNEP ADDED THE OIL PRODUCERS MAY NOW ALSO HAVE A PROBLEM OF FINDING SUITABLE FORMS IN WHICH TO HOLD THEIR HIGHER EARNINGS.

B. FROM THE VIEWPOINT OF OECD COUNTRIES, WHICH, BECAUSE OF THEIR ADVANCED TECHNOLOGY, HAVE A CRUCIAL INFLUENCE OVER THE EVOLUTION OF WORLD ENERGY SUPPLIES, THE MAIN QUESTION IS HOW FAST SHOULD THEY DEVELOP ALTERNATIVE SOURCES OF ENERGY. SINCE INVESTMENT IN ALTERNATIVE FORMS OF ENERGY IS UNCLASSIFIED

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EXTREMELY COSTLY AND CAN HAVE DAMAGING ENVIRONMENTAL EFFECTS, IT IS IN THE OECD MEMBERS INTEREST NOT TO MOVE FASTER THAN THEY HAVE TO. THE SPEED THEY DO MOVE WITH DEPENDS ON THE PRICE OF IMPORTED OIL. IF THE PRICE OF OIL IN OECD COUNTRIES IS WELL ABOVE COMPARABLE ALTERNATIVE ENERGY SOURCES, A WASTEFUL SCRAMBLE FOR INDEPENDENCE AND SELF SUFFICIENCY WOULD BEGIN WITH DISADVANTAGES TO OECD AND OIL PRODUCING COUNTRIES ALIKE. IF THE PRICE IS TOO LOW, THERE WILL BE WASTEFUL USE OF AN EXHAUSTIBLE ASSET AND THE INCENTIVE TO INVEST IN ALTERNATIVE ENERGY SOURCES WILL BE INSUFFICIENT TO PREVENT A FUTURE MORE SERIOUS ENERGY CRISIS.

8. IN REPLY TO QUESTIONS FROM PARLIAMENTARIANS, VAN LENNEP STATED THAT OECD AT PRESENT IS NOT IN DIRECT CONTACT WITH OIL PRODUCERS REGARDING RETURN FLOW OF CAPITAL. IN RESPONSE TO CRITICISM OF ROLE PLAYED BY MAJOR INTERNATIONAL OIL COMPANIES, VAN LENNEP FIRST NOTED POSITIVE ROLE OF OIL COMPANIES IN EVENING OUT SUPPLY DISPARITIES AND THEN STATED THERE WAS NO AGREED OECD VIEW ON THE RESPONSIBILITIES OF OIL COMPANIES IN THE PRESENT CRISIS. HE ALSO SAID THE PRESENT NONSYSTEM OF COOPERATIVE FLOATING EXCHANGE RATES WAS THE BEST FORM FOR NOW, BUT NOT FOR THE FUTURE.

9. US CONGRESSMAN CHARLES WHALEN PRESENTED REPORT TO ASSEMBLY ON THE ENERGY CRISIS AND SERVED AS US RAPPOREUR FOR DEBATE. WHALEN MOVED FOR A COOPERATIVE RATHER THAN INDEPENDENT APPROACH BY OIL CONSUMING COUNTRIES AND STRESSED THE CONSTRUCTIVE ROLE THAT THE OECD COULD PLAY FIRST IN COLLECTING AND DISSEMINATING INFORMATION, AND SECONDLY IN CONSULTATIONS ABOUT FUTURE ACTIONS. THE OECD, HE SAID, SHOULD NOT BE VIEWED AS A COUNTERWEIGHT TO THE OIL PRODUCING COUNTRIES. HE ENDED BY SAYING THAT ALL THAT REMAINS IS FOR GOVERNMENTS TO SHOW THE NECESSARY POLITICAL WILL TO COOPERATE.

10. US CONGRESSMAN LEO RYAN TOOK ISSUE WITH VAN LENNEP STATEMENT ADVOCATING CONTROLLED SEARCH FOR ALTERNATIVE ENERGY SOURCES AND POINTED OUT POLITICAL UNACCEPTABILITY OF SITUATION IN WHICH ONE PART OF WORLD HAS POWER TO CUT ENERGY SUPPLIES OF ANOTHER. HE INSISTED NOT ON SELF-SUFFICIENCY, BUT ON NEED TO BE ABLE TO CHOOSE AMONG COMPETING ENERGY SOURCES SUPPLIERS.

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11. IN GENERAL, SUBSEQUENT ASSEMBLY DEBATE WITH PARTICIPATION BY LARGE NUMBER OF EUROPEAN PARLIAMENTARIANS REFLECTED THE FOLLOWING:

- A FAIRLY BROAD ACCEPTANCE OF THE VIEW THAT COOPERATION AMONG OECD COUNTRIES WAS MADE IMPERATIVE BY THE CONSEQUENCES THE OIL CRISIS HELD FOR TRADE, GROWTH AND EMPLOYMENT. BILATERAL APPROACHES CAME IN FOR CRITICISM AND ONE SPEAKER TERMED OIL-FOR-GUNS DEALS AS SHAMEFUL. FRENCH DELEGATION WAS NOTABLY SILENT ON THIS POINT.

- APPROVAL OF PRESIDENT NIXON'S PROPOSAL FOR AN ENERGY CONFERENCE IN WASHINGTON ON FEBRUARY 11.

- AN ASSUMPTION THAT THE OECD COULD PLAY A ROLE IN COORDINATING POLICY AND POINTING OUT AREAS FOR COOPERATION.

- A NOTICEABLE DISTRUST OF THE ROLE PLAYED BY MAJOR

INTERNATIONAL OIL COMPANIES IN THE PRESENT CRISIS.

- SOME SCEPTICISM REGARDING VAN LENNEP'S VIEW THAT THE
COMMON INTEREST OF OIL CONSUMERS AND PRODUCERS WOULD WORK TO
REACH AN OIL PRICE WHICH WOULD, IN THE LONG RUN, RESTORE
SOME BALANCE TO EXPORTS AND IMPORTS.

- CONCERN FOR THE POSITION OF NON-OIL PRODUCING LDC'S.

12. TEXT VAN LENNEP REMARKS AIR-POUCHED ALL ADDRESSEES.
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